April 10, 2017

Suraj Industries

Instruments*	Amount Rated (Rs. crore)	Rating Action
Fund-based Limits	23.00	[ICRA]BBB+ (Stable)/ Reaffirmed
Non – fund Based Limits	2.00 (Enhanced from 1.15)	[ICRA]A2+/ Reaffirmed

**Instrument details are provided in Annexure-1*

Rating action

ICRA has reaffirmed the long term rating of [ICRA]BBB+ (pronounced ICRA triple B plus)[1] to the Rs 23.00 crore[2] fund based cash credit limit of Suraj Industries. The outlook on the long-term rating is 'Stable'. ICRA has also reaffirmed the short term rating of [ICRA]A2+ (pronounced ICRA A two plus) to the Rs. 2.00 crore (enhanced from Rs 1.15 crore) non-fund based bank facilities of Suraj Industries.

Rationale

In arriving at the ratings, ICRA has taken a consolidated view of SRV Group entities, namely, M/s. SRV Synthetics, SRV Polytex Private Limited and M/s. Suraj Industries, given their strong operational and financial linkages, presence in similar business as well as common management control.

The re-affirmation of ratings continues to factor in the extensive experience of the promoters of the group in the textile industry as well as its established and diversified customer base. The ratings also derive comfort from the steady improvement in accruals of the group over the last three years, aided by healthy realisations from its recently introduced value added yarn, coupled with forward integration into fabric knitting resulting in higher value addition, though the scale of the knitted fabrics business remains modest at present. This coupled with the group's effective management of working capital cycle has further limited its dependence on external borrowings to fund growth, thereby resulting in continued comfortable financial profile as evident by the favourable capital structure and the satisfactory debt protection metrics.

The ratings, however, are constrained by the vulnerability in operating income due to movements in crude oil prices which exerts pressure on sale realisation, while challenging market conditions in the textile industry has led to pressure on sales volumes as reflected in the de-growth in the company's operating income in FY2016. The ratings also remain constrained by the limited bargaining power of the group and the resultant susceptibility of its profitability to volatility in raw material costs, largely partially oriented yarn (POY), a crude oil derivative. The commoditised nature of the product as well as the competitive nature of the industry further adds to profitability pressures. The ratings also continue to remain constrained by the risks associated with the partnership constitution of two of the entities in SRV Group such as capital withdrawals, insolvency and death of partners.

[1] For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications.
[2] 100 lakh = 1 crore = 10 million

In FY2017, ICRA expects the company's operating income to show de-growth as an impact of demonetisation, coupled with pressure on realisations. Given the competitive nature of the industry, the ability of the company to increase its scale of operations as well as maintain/improve its profit levels, will be key determinants for its funding requirements and would remain the key rating sensitivities. This apart, scale and funding pattern for future capital expenditure, if any, would be key rating monitorables.

Key rating drivers

Credit strengths

- Extensive experience of promoters in the textile industry for over two decades
- Diversified and established client base
- Forward integration into fabric knitting results in higher value addition, though the scale of the knitted fabrics business remains modest
- Year on year increase in accruals aided by relatively more profitable value added yarn
- Continued comfortable financial profile as exhibited by favourable capital structure and satisfactory debt metrics

Credit weaknesses

- Revenue growth remains an area of concern with sale realisation and volumes being under pressure
- Susceptibility of operating revenues and profitability to cyclicality inherent in textile industry; profitability margins further remain vulnerable to volatility in raw material costs, chiefly POY, a crude oil derivative
- Commoditised nature of the product as well as competitive nature of the industry further adds to profitability pressures
- Risks associated with constitution of entities as partnership firms like capital withdrawals, insolvency and death of partners

Sensitivities

- Aggressive debt- funded capex

Description of key rating drivers:

The corporate structure of SRV Group consists of one private limited company (SRV Polytex Private Limited) and two partnership firms (SRV Synthetics and Suraj Industries), all engaged in the similar business of texturising yarn and managed by the same set of promoters who have a extensive experience in the textile industry.

The group's distribution of sales is geographically diversified with exposure to the export markets of Ethiopia, Sri Lanka, Thailand, Bangladesh and few other African countries through SRV Synthetics; however, over the last three years exports remained low in the range of 10-12% of the total sales by the Group.

The Group undertakes continuous capex in order to technologically upgrade itself and improve the profitability levels. It currently operates 34 texturising machines with an annual capacity of ~ 48940 TPA. However, the group continued to witness pressure on realisations amid declining prices of POY which resulted in a decline in the OI which stood at Rs. 417.98 crore in FY2016 against Rs. 466.52 crore in FY2015. In the backdrop of decline in realisations as well as decline in volumes, the gross sales for the company witnessed a contraction in 9M-FY2017 to Rs 277.70 crore as against the gross sales of Rs 326 crore in 9M-FY2016. Notwithstanding the above, given the easing of raw material prices, the profitability levels of the group remained protected.

Further, in an attempt to forward integrate its operations, the group ventured into manufacturing of basic grade knitted fabric through SRV Synthetics which is primarily used in the hosiery industry. At present the Group has a total of 54 knitting machines installed at a capacity of manufacturing 6750 kg of fabric per day and has placed an order for additional 30 machines which are expected to be installed by July/August 2017 and thereafter, the capacity is likely increase to manufacturing 10500 kg of fabric per day thereby adding to the revenues and profitability of the group.

The group's financial profile continues to remain favourable aided by declining debt levels as well as steady accretions to reserves. The capital structure for the group has also remained comfortable as is evident by gearing of 0.51 times and TOL/TNW of 0.78 times as on March 31, 2016. However it is pertinent to note that there have been capital withdrawals on a Y-O-Y basis due to partnership constitution of the entities.

ICRA notes that going forward, the Group's revenue growth and profitability is expected to be aided by the product diversification which is likely to yield better margins. However, the Group's ability to sustain the increase in scale of operations while maintaining its profitability would remain a key rating sensitivity.

Analytical approach: "For arriving at the ratings, ICRA has taken a consolidated view of Suraj Industries along with its group companies – SRV Synthetics (rated [ICRA]BBB+ (Stable)/ A2+) and SRV Polytex Pvt. Ltd. since they operate in the same line of business, have operational linkages and share a common management."

Links to applicable Criteria
Corporate Credit Ratings: A Note on Methodology
Rating Methodology for Indian Textiles Industry – Spinning

About the Firm
Suraj Industries manufactures texturised yarn. The manufacturing facility of the firm is located at Silvassa in the U.T of Dadra & Nagar Haveli. Suraj Industries is part of the SRV Group, which includes three entities, namely M/s. SRV Synthetics (rated [ICRA]BBB+(Stable)/[ICRA]A2+ (March 2016)), SRV Polytex Private Limited[3] and M/s. Suraj Industries. The Group manufactures texturised yarn in deniers ranging between 80 and 600, with the denier mix being determined by profitability available for the respective deniers.

Status of non-cooperation with previous CRA: Not Applicable.

Any other information: Not Applicable**.**

[3] The rating of SRV Polytex Private Limited was withdrawn in March 2013 with the bank facilities being repaid by the entity.

Rating History for last three years:
Table: Rating History

S. No.	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years			
		Type	Rated amount (Rs. Crores)	Month - year & rating in FY2018	Month - year & Rating in FY2016		Month - year & Rating in FY2015	Month - year & Rating in FY2014
1	Cash Credit	Long term	23.00	**April 2017**	**Mar 2016**	Apr 2015	Aug 2014	Oct 2013
				[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)
2	Bank Guarantee/ Letter of Credit	Short term	2.00	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1
Details of Instruments

Name of the instrument	**Date of issuance**	**Coupon rate**	**Maturity Date**	**Size of the issue (Rs. Cr)**	**Current Rating and Outlook**
Fund based – Cash Credit	-	-	-	23.00	[ICRA]BBB+ (Stable)
Non-fund based – Bank Guarantee/Letter of Credit	-	-	-	2.00	[ICRA]A2+

Source: Suraj Industries

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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